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Farmers' Response to Structural Adjustment Programs in Sub-Saharan Africa: The Need for Democratic Reforms

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Osita M. Ogbu

I. Introduction

The debate as to whether internal or external factors were responsible for the output decline in the agricultural sector in the 70s and 80s in Sub-Saharan Africa (SSA) is now a moot one, largely confined to the realm of intellectual exercise. African governments having "accepted" that internal policy mistakes were made embarked on the structural adjustment programs as corrective policy measures. These policies are supposed to restructure the economy, restore the position of agriculture as the prime basis for development in these economies, and create the environment for sustained economic development. Farmers are supposed to benefit from the greater openness in the economy: competitive marketing channels, improved prices for their produce, dismantling of rent seeking centers, greater reliance on the market forces etc. The economy is supposed to benefit from the efficiency of the farmers and increased supply response that these incentives will elicit.

After a decade of implementing these policies, the crisis appears not to have been stemmed, and farmers' response to incentives appears to be slow and timid. Several short term evaluation efforts have been initiated[1], and there are on-going exercises to fine tune the program in recognition of some of the undesirable consequences on the vulnerable groups. There is even a slight shift from the World Bank's position as articulated by the Berg Report (World Bank, 1981), and the views expressed in a new report on SSA (World bank, 1989).

In this new report, "broadening" and "deepening" of structural adjustment are recommended for future growth. But the report also recognizes that the strategy must be human centered and that good governance constitute an essential part of the enabling environment.

Evidence from the literature (Lele, 1988; Smith, 1989; Hans Binswanger and others, 1987) suggests that farmers' aggregate response to price incentives have been very disappointing, and that nonprice factors are more important in stimulating aggregate supply response. The traditional nonprice factors often discussed in the literature include technology, access to credit, public expenditures, infrastructure and institutional bottlenecks etc.

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[1] The methodological issues in these evaluations were dealt with in Ogbu, O. M. (1991), "Structural Adjustment and Agricultural Supply Response in Sub-Saharan Africa: Synthesis and Limits of Current Analysis", A Paper presented at a Joint CODESRIA and IDRC Workshop on Structural Adjustment and Agrarian Crisis in Sub-Saharan Africa held in Ibadan, Nigeria from June 10-14, 1991.

(see, Ogbu and Gbetibuou, 1990).[2]

There is no real discussion of good governance as part of the enabling environment and therefore constituting a nonprice factor in the supply response literature. There are often scanty discussions of regime changes as they impinge on institutional support to the agricultural sector (Lele, (forthcoming); Idachaba, 1989). The assumption may be that the authoritarian regimes are a given in SSA and that farmers' response will not be affected by what type of regime is in power. But the structural adjustment programs are re-defining state - people relations as the state shrinks, and non state agencies emerge to perform "traditional" state roles. Thus, farmers, as the subdued ally of the state, feel somewhat ambivalent having lost support on the one hand and appear to have gained it on the other. There are now serious questions as to whose interest is being represented by the state.

This paper therefore takes as its point of departure the fact that good governance should be considered as a nonprice factor which inhibits aggregate agricultural supply response. And that government accountability, democratic governance, and interest group dynamics influence (i) the distribution of gains from structural adjustment, and (ii) farmers' long-term behavior and allocation of risks, and thus supply response in the agricultural

[2]Ogbu, Osita M. and Mathurin Gbetibuou (1990), "Agricultural Supply Response in Sub-Saharan Africa: A critical Review of the Literature", African Development Review, vol. 2, no. 2, pp. 83-97.

sector.

II. Farmers, Group Interests and Distribution of Gains Under Structural Adjustment

The free market tenet of structural adjustment is supposed to enable the farmer to make optimal decisions on both his input use and production choices. His prices will be the price obtainable at the market at the point of sale not that pre-determined by the marketing boards. Devaluation will increase his local currency earning from export, increase his consumption of incentive goods, and provide cash for purchases of improved inputs.

On the other hand, the farmer will have to forego subsidies on fertilizer and other inputs, share in the cost of health care and educational delivery, deal with multiple agents (privatization) and accept a smaller state whose only real role is to provide the "enabling environment". The structural adjustment programs also did not initially address the question of land reform, credit policies and extension services for smallholders.

Some of the assumptions underlying the implied benefits to the farmer are based on free mobility of resources, freedom in production decisions, and production of marketable surplus. But as we well know arable land is a very serious constraint to agriculture in many parts of SSA (Kenya and Malawi, for instance). Therefore, while there is evidence of individual crop response to price incentives in SSA (Maitha, 1970), there is still the problem of asset fixity, lack of relevant experience and skills to switch from one crop to another, many farmers being net purchasers of food, and government and interest group control of production and distribution decisions.

In Malawi, production decisions are reserved to the state which determines essentially who produces what. The estate sector enjoys a privileged status and is controlled by a few elite. The estate is defined here not in term of the size of the farm or the extent of its commercialization but by its right to produce, sometimes exclusively, certain crops. This right did not disappear with the introduction of structural adjustment. Thus, the chosen few continued to use the state to secure and consolidate their hold on the economy despite the structural adjustment's intent to restructure the economy.

Food market liberalization was introduced in Malawi in 1987. But there were initial technical and acceptance problems due to the speed of implementation under donor pressure. Although it has operated somewhat smoothly, the effectiveness of privatization has been marred by government licensing requirements, geographical and commodity concentration among the licensed, ADMARC's dominance in certain parts of the country, exploitative and dishonest behavior of private traders, and cash flow constraints due to small traders' limited access to credit (Scarborough, 1990). All these coupled with the information gap limited the benefits from competition, and thus the overall benefits to the smallholders.

Subsidy withdrawal was simultaneous for both the smallholder and estate producers despite the other advantages (including direct access to international markets, production of lucrative crops etc.) enjoyed by the estate producers. Estates produce about 90 percent of Malawi's agricultural export, and account for 20 percent of arable land of which only 6-8% is actually cultivated (Lele, 1990). The initial response (between 1981 -1984) by smallholders to price decontrol in Malawi was a doubling of their output of maize. But the five-fold increase in fertilizer prices following the withdrawal of subsidies was to have its effect on supply response. Comparing 1983-84 and 1986-87, a UNICEF report indicated that Malawi's fertilizer consumption declined by 7 percent and the area planted with high quality hybrid maize declined by 50 percent (African Farmer, 1990).

In 1989, the government reinstated the fertilizer subsidy (perhaps because the fertilizer/maize price ratio remained very high), and the production of maize looks lucrative again for the smallholder. But continued concern for budget deficits and donor pressure are likely to lead to another round of subsidy withdrawal.[3] But more importantly, sustained supply response will require much more than the right subsidies and prices. Policy intervention focusing on the market structure, market development and information, asset distribution involving all factors of production (Lele, 1990), greater political openness, and reduction in interest group control will be required.

In Ghana, devaluation led to a doubling of cocoa exports between 1984 and 1986. This represented a substantial rise in the income of cocoa farmers of Ghana. But, as in most of SSA, the gains from this export are skewed in favour of a few farmers. About 32 percent of cocoa farmers in Ghana, those with very large operations, receive 94 percent of the gross cocoa income with the remaining 68 percent, mostly smallholders, sharing only 6 percent of the income (African Farmer, 1990). These figures are likely to worsen for the smallholders if net income is considered since the large scale operator is likely to a face a lower cost of production, obtain free government services, and generally use his influence (alone or in collusion with other large scale farmers) to enhance the profitability of his operation. Yet, sustained supply response will require that smallholders' share of net income grows faster to offset their disadvantage from government withdrawal from

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[3] For a discussion of the Fertilizer debate in Malawi, see Scarborough, Vanessa (1990), "Agricultural Policy Reforms Under Structural Adjustment in Malawi", ADU occasional Paper 12, WYE college, University of London.

traditional obligations, and changing composition of rural household income due in part to the reduction in remittances from the urban areas.

Despite this skewed distribution of gains from the adjustment program, Ghana's adjustment efforts have been hailed as the most successful in the continent. While this is partially true, the picture is somewhat exaggerated. In 1988, real GDP was only 3 percent in excess of its 1980 level, and per capita GDP was lower than its 1982 levels (Loxley and Young, 1988). Part of this success is of course attributable to massive inflow of foreign capital. Continued success of the program will depend, in part, on a sustained capital inflow, at a higher level than during the first phase, since the next phase of adjustment is likely to be harder. However, the lack of broad based political consensus for the original program means that both the pace of reform and its eventual outcome will depend on greater political participation more than anything else.

In Nigeria, with the abolition of the marketing boards, traders swamped cocoa producing areas and artificially bid up the price of cocoa beyond that obtainable internationally. The only plausible explanation for this was that cocoa export was seen, at the early stages of the structural adjustment program, as a safe means for capital flight. What is important for our purpose though is that this situation raised false hope, and essentially served non-farming population interests, at least in the long run.

The privatization of marketing channels in Nigeria did not eliminate middlemanship nor did it necessarily ensure effective competition. The Cocoa Association of Nigeria, which represents mainly exporters, are reported to have earned the wrath of small farmers who have accused it of forcing down prices in order to boost traders' profit [4]. Thus, privatization has led not only to collusion, shady trading practices but also to poor quality control which has hurt the reputation of Nigerian Cocoa internationally. The government has stepped in again to license cocoa merchants and impose standards. This has created another rent seeking centre for government employees and middlemen, and increased the transaction costs for the weaker cocoa producers. There are recent indications that many cocoa farmers are agitated over costly pesticides since government subsidized chemicals have 'disappeared' from the market.[5] This situation illustrates a case where attempts to reduce the impact of government failure has increased market failures and changed monitoring arrangements (see, Vickers and Yarrow, 1991). Policies to improve the effectiveness of private marketing channels will rely on an understanding of both the structure and functioning of these marketing channels. Data for such studies are, as yet, lacking.

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[4] Kenya: Daily Nation, Saturday, August 24, 1991.

[5] See footnote 4.

The story is not entirely different in Kenya. Farmers have expressed disgust over the lavish life-style of middlemen against the background of their own impoverishment. Farmers' concern emanate principally from insensitivity of government officials to their concerns and delay in paying them for their produce sold to the marketing boards (African Farmer, 1990). Last year this delay erupted into a crisis that prompted some coffee producers to uproot their coffee plants in order to plant food crops despite the fact that this act is illegal (Weekly Review, June 1, 1990). Eventually one minister lost his job, but the problems have not eased. Land meant for smallholders is constantly being traded for political patronage and there is resistance from government officials, some of whom derive unofficial power and influence from the marketing boards, to the eventual privatization of marketing boards. Again, farmers as an unorganized and powerless constituency, have to contend with interest groups, and a government that is on paper doing everything to motivate production but which in reality constitutes a cog in the wheel.

These examples across Africa illustrate the serious impediments to farmers' supply response due to group interests and dynamics, the lack of transparency and consistency in government policies, and the powerlessness of many of the African farmers. All these at a time when African farmers are increasingly asked to bear a greater share in the cost of their health care and the cost of educating their children. These policy slippages, and farmers' perception of losers and gainers have serious consequences for the way farmers allocate risks and make long term investments. (We shall return to this in the next section). There is now the question of how privatization and weak government control compare with government ownership and strong control under the present and unreformed political systems in Sub-Saharan Africa.

The solution lies in giving farmers a greater say and in recognizing that policies will affect farmers differently depending on their size, and their own individual or collective ability to influence events around them. But anything short of an overhaul of the political system will not meet with success. This is because the interest groups dominated by the middleclass will resist the devolution of power, and hence accountability, since they depend on the state for economic survival and are likely to impede rather than encourage political competition (Shaw, 1990). This scenario is very likely in most of SSA where there is an accumulated advantage of incumbency.

III. Farmers Allocation of Risk Under Structural Adjustment and Closed Political Systems

The structural adjustment program is designed so that microeconomic rationalizations (by removing long-standing distortions) will raise the marginal efficiency of investment, foster long-term investment behavior, and lead to sustainable growth. Econometric evidence indicate that adjustment is taking place (where they are taking place) through expenditure reductions and that includes reduction in investment expenditures (Faini and Melo, 1990).

While analysis of aggregate investment behavior point to the general trend, farmers in SSA as a distinct group of investors are often not given much of attention in the literature. If the success of structural adjustment, as is often proclaimed, depends on the success of the agricultural sector,[6] it means that farmers' perception and allocation of risks and their long-term investment behavior are at the root of this success. So the question is : has the microeconomic rationalization led to increased factor mobility and productivity within the agricultural sector, and thus improved the long-term investment behavior of the farmers ? Since farmers access to new capital is limited, and there is very little likelihood of inter-sectoral transfer of resources, it means that higher investment in agriculture will depend on increased savings rate by farmers. Therefore, beginning to emerge is some sort of contradiction between the requirement for higher savings on the one

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[6] This status quo argument is now being challenged by those who are indicating that SSA countries cannot afford to "continue to do what they do best" since part of the SSA crisis is due to falling purchasing power of her exports brought about by the primary nature of these exports. At least middle income African countries should start diversifying their exports into manufactures (Culpeper, 1987). I have some sympathy for this argument.

hand, and increased cost sharing for social services which most programs call for, on the other. This contradiction becomes real and enlarged if the present political systems mirror what the future holds- a state of economic hopelessness and political helplessness.

Certain factors affect adversely the risk behavior of farmers in SSA. Some of these are uncertain and low rainfall, food security concerns, farmers' perception of policy and policy makers etc. While some of the answers to the above questions are largely empirical, we have attempted to show in section II that the structural adjustment programs' attempt to eliminate policy induced distortions has not been completely successful due to farmers powerlessness and middleclass interests.

Because the political process is closed, farmers cannot force any real changes. They view both the government and their policies with suspicion and cynicism, divert and sometimes undermine well intentioned policies (Shaw, 1990). These have therefore led to short-run adjustments behavior instead of long-run behavioral changes which the structural adjustment calls for. This feeling of alienation reinforces their risk-averse behavior, and engenders any real long-term investment plans.

Farmers' confidence to invest and participate in production also depend on their assessment that government will maintain accountability over time. This will require that decisions in the agricultural sector be subject to popular input otherwise, internal pressure can produce costly policy flip-flops. For instance, if farmers choose sunk investment expenditure in order to reduce costs, they may run the risk that government might change its mind, and lower prices for the products will prevail when farmers have not yet recovered their costs. Such policy flip-flops have been noted in Zambia, Nigeria, Ghana, and Malawi.

This crisis of confidence, and the changing state obligations have manifested in the increased number of Non Governmental Organizations (NGOs) currently operating in SSA. About $1 billion of NGO aid is disbursed annually in Africa. In some Sahelian states it represents a significant proportion of total aid to them. The same is true for the overall aid to the health sector in SSA (Shaw, 1990).

Current trust and relationship between rural farmers in SSA and some NGOs are bolstering the NGOs to think that they can successfully intervene in the areas where government are withdrawing. One is not exactly sure whether the government isn't in fact withdrawing because they think someone else will pick up the slack, and that the constituency being served is of no political consequence.

Thus, NGO activities while laudable in many ways are not without dangerous consequences. Their actions may tend to widen rather than bridge the confidence gap between the rural farmers and the government. This can further undermine well intentioned government policies since most of the NGO activities are undertaken without full appreciation of the macro picture. But, more importantly, by intervening in the critical areas of health and education and substituting as governments, they may in fact be shielding the rural populace from the political process. Therefore, rather than empowering the people they may be de-empowering them in the long-run by fostering political apathy.

This is why a recent OXFAM experience in Asia is very instructive, and should provide lessons for the future[7]. Government construction of a dam led to a village being resettled with an unfinished well, school and clinic. Instead of OXFAM stepping in to provide these facilities, as would have been the traditional NGO approach, it instead provided money for organization, and transport to take the village representatives to the capital to lobby their government. The lobby was successful, the government latter provided these services (Tanner, 1991). This is a clear example of empowerment of the people.

[7] This is not a blanket endorsement for the NGOs to engage in political activities. After all, it is not often that the Agenda of the NGOs coincide with that of national governments, and actions such as this could easily be subversive.

IV. Summary and Conclusions

Farmers' response to structural adjustment incentives, in addition to other factors, depends on farmers perception of losers and gainers, confidence in the government, and their own ability to influence events. Economic liberalization without government accountability and political openness means that rent seeking centers may have simply shifted rather than disappeared. Interest groups (both government officials and private middlemen), exploiting farmers powerlessness and lack of organization continue to skew the gains from structural adjustment in their favour, and thus impede farmers' real response to incentives.

Privatization of marketing channels in an attempt to correct government failures may introduce market failures if conditions for effective competition do not exist. In this case partial liberalization rather than complete liberalization may be the preferred option. But this must be on a case by case basis and care must be exercised not to reintroduce distortions.

Farmers' allocation of risks, and thus long-term investment behavior is influenced by government long-term commitment to policies as well as the assurance that accountability will be maintained over time. Policy slippages and flip-flops are very expensive and reinforces farmers' risk-averse behavior.

Government withdrawal from its traditional obligations has not helped to build confidence. It in fact affects adversely farmers' savings rate and the amount of investible capital in the agricultural sector. NGOs, taking advantage of weakened states, are increasing their intervention in SSA especially in the social sector. There are, however, some dangerous consequences to this increased intervention. This calls for close supervision of the NGOs to ensure that their activities do not undermine national agenda, and hurt those that they work to protect.

If farmers are to fully respond to structural adjustment incentives, some sort of political reform will be a necessary precondition. This reform should ensure government accountability and popular[§] input into decision making.

The democratic process and political openness which it entails means that policy makers are likely to be representative and sensitive to farmers' needs and concerns. Here, the assumption is that the views of farmers are not going to be either articulated or hijacked by a few emergency and opportunistic farmers. The form of this democratic reform could vary but the essential elements of accountability, legitimate opposition, popular participation, and freedom of expression cannot be traded.

[§] This should not imply that representative leadership should not bear some burden in decision making.

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